

Message Text

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DEPT PASS TO AID, COMMERCE, TREASURY AND EXIMBANK
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ATHENS, USINT BAGHDAD, BONN, BRUSSELS, CAIRO, GENEVA, HAGUE,
JIDDA, KHARTOUM, KUWAIT, LONDON, PARIS, OTTAWA, RABAT, ROME,
STOCKHOLM, TOKYO, TRIPOLI, VIENNA, AND USMISSION USUN NEW YORK

E.O. 11652: N/A
TAGS: ECON, EAID, EFIN, EINV, TS
SUBJ: TUNISIAN FIFTH DEVELOPMENT PLAN: 1977-81

REF: 76 TUNIS 6629 TUNIS A-116 TUNIS 4063 TUNIS 5006

1. (BEGIN SUMMARY) DEFINITIVE TEXT OF TUNISIAN FIFTH PLAN FOR
ECONOMIC AND SOCIAL DEVELOPMENT FOR PERIOD 1977-81, AS ADOPTED
JULY 23 BY NATIONAL ASSEMBLY, RETAINS DRAFT PLAN'S BASIC OBJECTIVES
AND TARGETS FOR GROWTH (7.5 PERCENT ANNUALLY) AND TOTAL INVESTMENT
(4.2 BILLION DINARS.) HOWEVER, BECAUSE OF REVISED RESULTS OF
FOURTH PLAN AND DEVELOPMENTS IN INTERIM, MANY OTHER FIGURES HAVE
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BEEN MODIFIED. NOTABLY, INCREASED ESTIMATE FOR TOTAL EXTERNAL
FINANCING NEEDS, FROM 1,506 MILLION DINARS (MD) TO 1,680 MD,
HAS LIFTED 5-YEAR REQUIREMENT FOR MEDIUM-TERM COMMERCIAL CREDITS
FROM 476 MD TO 710 MD. THERE FOLLOWS EMBASSY'S SUMMARY OF DEFINITIVE TEXT. (END SUMMARY).

2. MAJOR OBJECTIVES: A) AS WITH FOURTH (FOUR-YEAR) PLAN, FIFTH

(FIVE-YEAR) PLAN SETS JOB CREATION AS KEY SOCIO-ECONOMIC OBJECTIVE. PLAN PROJECTS CREATION OF ADDITIONAL 234,000 JOBS IN NON-AGRICULTURAL SECTOR, PLUS EQUIVALENT OF 30,000 FULL-TIME JOBS IN AGRICULTURE--20,000 ON NEWLY IRRIGATED LAND. (HALF OF AGRICULTURAL JOBS WILL CREATE EMPLOYMENT FOR ADDITIONAL WORKERS, REMAINDER REFLECT REDUCTION IN UNDEREMPLOYMENT.) IF ACHIEVED, THIS LEVEL OF JOB CREATION WILL ALMOST COVER FIVE-YEAR INCREASE IN LABOR FORCE, ESTIMATED AT 279,000 WORKERS: 228,000 MEN AND 51,000 WOMEN. 234,000 ADDITIONAL NON-AGRICULTURAL JOBS, 90,000 ARE TO BE IN MANUFACTURING (42,000 IN TEXTILES AND LEATHER), 55,000 IN CONSTRUCTION, 30,000 IN ADMINISTRATION, 10,500 IN TRANSPORT AND COMMUNICATION, 6,200 IN TOURISM, 35,000 IN COMMERCE AND OTHER SERVICES, 6,000 IN FISHING, AND 2,350 IN ENERGY - VERSUS A LOSS OF 1,300 JOBS IN MINING. FULL EMPLOYMENT, DEFINED AS SUFFICIENT ANNUAL JOB CREATION TO MEET ADDITIONAL DEMAND FOR JOBS, IS TO BE SECURED BY 1981. B) SELF-SUFFICIENCY IN FOOD, I.E., BALANCED TRADE IN FOOD PRODUCTS, IS SECOND MAJOR GOAL. THIS IS TO BE ACHIEVED THROUGH INCREASED ACREAGE UNDER IRRIGATION AND HIGHER PRODUCTION VIA DIFFUSION OF IMPROVED TECHNOLOGY, AGRICULTURAL CREDIT FOR NEEDED INPUTS, ETC. C) THIRD GOAL IS ACCELERATED GROWTH ITSELF. ANNUAL 7.5 PERCENT AVERAGE INCREASE IN GROSS DOMESTIC PRODUCT, COMPARED WITH 6 PERCENT UNDER FOURTH PLAN, PERMITS INCREASES IN BOTH INVESTMENT AND STANDARD OF LIVING. TOTAL CONSUMPTION TO GO UP 7.1 PERCENT ANNUALLY. PER CAPITA INCOME WILL REACH ESTIMATED 408 CURRENT TUNISIAN DINARS IN 1981. TO ACHIEVE 1981 GNP OF 3.4 BILLION DINARS, AS COMPARED WITH 1.9 BILLION DINARS

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IN 1976, PARTICULAR RELIANCE IS PLACED ON FASTER THAN AVERAGE GROWTH IN MANUFACTURING, ENERGY AND MINING, ADMINISTRATIVE SERVICES AND TRANSPORT. D) WHILE OVERALL POLICY THRUST IS TOWARD INCREASED PRODUCTIVITY, FOURTH GOAL IS MORE BALANCED DISTRIBUTION OF BENEFITS OF GROWTH BY (I) PRESSING DEVELOPMENT (JOB CREATION, HOUSING AND SERVICES) FOR LESS FAVORED GROUPS AND RURAL AREAS; AND (II) PURSUING A PRICES AND INCOMES POLICY. E) UNLIKE THE DISCUSSION OF PLAN, DOCUMENT ITSELF DOES NOT CITE DRAMATIC ROMANIAN "TAKE-OFF" TO SELF-SUSTAINING GROWTH AS AN EXPLICIT OBJECTIVE TO BE REACHED BY 1981. FIFTH PLAN STRESSES LOGICAL CONTINUITY WITH PREVIOUS EFFORTS, LINKED IN TURN TO DEVELOPMENT GOALS FOR 1986. ALTHOUGH IT RECOGNIZES DECLINING TREND IN GRANT ASSISTANCE, END TO RELIANCE ON CONCESSIONAL AID BY 1982 (FREQUENTLY MENTIONED IN EARLIER STATEMENTS BY GOV OFFICIALS) IS NOT CITED AS AN EXPLICIT OBJECTIVE OF PLAN.

3. INVESTMENT INPUTS: TOTAL INVESTMENT NECESSARY TO MEET PLAN'S TARGETTED GROWTH RATE IS PROJECTED TO BE 4,200 MILLION IN CURRENT DINARS (\$9.8 BILLION AT RATE OF 1 TD EQUAL TO \$2.33) OR 3,400 MD (\$7.9 BILLION) IN CONSTANT 1976 DINARS. (BY LATTER MEASURE, FOURTH PLAN INVESTMENT TOTALLED 1,785 DINARS.) NATIONAL SAVINGS, AT VIRTUALLY SAME RATE (22.6 PERCENT) AS UNDER FOURTH PLAN, IS EX-

PECTED TO SUPPLY 3,115 MD (\$7.26 BILLION) VIA GOVERNMENT BUDGET SURPLUS AND MISCELLANEOUS OPERATIONS (931 MD--WOMO PERCENT), BANKS AND ENTERPRISES (1188.2 MD--38.1 PERCENT), AND HOUSEHOLDS (996 MD--32 PERCENT).

4. THESE INVESTMENT TARGETS ARE SUBSTANTIALLY HIGHER THAN THOSE ACHIEVED DURING FOURTH PLAN AND WILL REQUIRE MARKED EFFORT TO ATTAIN. EVEN WITH STIFFENED TAXATION OF MIDDLE CLASS NOW UNDERWAY - PARTICULARLY ON VISIBLE SIGNS OF WEALTH, IT WILL BE DIFFICULT TO CONTAIN RATE OF INCREASE IN HOUSEHOLD CONSUMPTION (TO 6.6 PERCENT ANNUALLY, INSTEAD OF 8.1 PERCENT UNDER FOURTH PLAN) IN ORDER TO RAISE AVERAGE PROPENSITY TO SAVE IN HOUSEHOLD SECTOR FROM 10.3 PERCENT TO 10.6 PERCENT. IMPROVED OPPORTUNITIES FOR HOME OWNERSHIP WILL BE MAJOR INCENTIVE. PUBLIC CORPORATIONS

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WILL BE EXPECTED TO GENERATE MORE INTERNAL SAVINGS AND INCREASE THEIR INVESTMENT ATTRACTION, BOTH DOMESTIC AND FOREIGN. PRIVATE SECTOR SAVINGS AND MUCH OF PUBLIC CORPORATION SAVINGS WILL BE CHanneled INTO INVESTMENT THROUGH BANKING SYSTEMS WHICH WILL BE REQUIRED BY 1981 TO HOLD 44 PERCENT OF DEPOSITS IN MEDIUM AND LONG-TERM ASSETS, INCLUDING 20 PERCENT IN GOVERNMENT BONDS--WHICH ARE TO BE A MAJOR SOURCE OF FINANCING FOR PUBLIC SECTOR. MORE ATTRACTIVE TIME DEPOSIT ACCOUNTS SHOULD INCREASE HOUSEHOLD SAVINGS AVAILABLE FOR INVESTMENT THROUGH THE BANKING AND HOUSING FINANCE SYSTEMS.

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STOCKHOLM, TOKYO, TRIPOLI, VIENNA, AND USMISSION USUN NEW YORK

5. GROSS EXTERNAL FINANCING: TOTAL CAPITAL INFLOW REQUIRED DURING
FIVE YEARS IS CALCULATED AT 1,680 MD (\$3.9 BILLION) --1,210 MD
(\$2.8 BILLION) NET. OF GROSS TOTAL RESOURCES FROM ABROAD, 60 MD
IS EXPECTED TO BE IN GRANTS, 240 MD IN EQUITY INVESTMENT (WHICH
PLAN STRONGLY DEFENDS), 670 MD IN PUBLIC LONG-TERM LOANS--FOR
WHICH TUNISIA INCREASINGLY LOOKS TO IBRD AND ARAB/ISLAMIC DONORS--
AND RESIDUAL 710 MD IN PRIVATE MEDIUM TERM (UP TO 10 YEAR) LOANS.
OF 670 MD FROM PUBLIC LONG-TERM BORROWING, 276.5 MD IS EXPECTED
TO BE DISBURSED FROM FUNDS NOW "IN THE PIPELINE" FROM APPROVED
LOANS, 165.3 MD FROM LOANS UNDER NEGOTIATION, AND 228.2 MD FROM
NEW LOANS TO BE OBTAINED (52 MD FROM MULTILATERAL INSTITUTIONS,
55 MD FROM GULF STATES, 94 MD FROM OECD COUNTRIES AND 5.6 MD FROM
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COMMUNIST COUNTRIES).

6. POPULATION: GROWTH RATE IS PROJECTED AT AVERAGE 2.3 PERCENT
FOR PERIOD 1976-81, FALLING TO 1.5 PERCENT IN YEAR 2000. TUNISIANS
IN 1981 WILL NUMBER 6.4 MILLION, UP FROM 5.7 MILLION IN 1976.
JOB CREATION ALONE CANNOT SOLVE UNEMPLOYMENT PROBLEM; FIFTH PLAN
COMMITTS GOT TO CONTINUATION OF ACTIVE FAMILY PLANNING PROGRAM TO
REDUCE SUBSTANTIALLY NUMBER OF POTENTIAL ENTRANTS INTO JOB
MARKET, AS WELL AS PROPORTION OF NON-PRODUCTIVE YOUNG PERSONS IN
POPULATION. GOT PROJECTS THAT, UNDER FAMILY PLANNING PROGRAM: A)
ABOUT 460,000 BIRTHS WILL BE AVOIDED DURING DECADE 1977-86, B)
355,000 FEWER PERSONS WILL ENTER JOB MARKET IN PERIOD TO YEAR
2000, AND C) POPULATION IN YEAR 2001 WILL BE 2.8 MILLION LESS THAN
IF CURRENT FECUNDITY PATTERNS PREVAILED OVER ENTIRE PERIOD. A-
PART FROM OPERATING BUDGETS, ADDITIONAL INVESTMENT IN FAMILY
PLANNING WILL EXCEED 9 MD IN PERIOD 1977-81.

7. AGRICULTURAL PRODUCTION: VALUE-ADDED OF PRODUCTION IS TO IN-
CREASE 2.5 PERCENT PER ANNUM COMPARED WITH 1.5 PERCENT UNDER
FOURTH PLAN; VOLUME IS TO INCREASE BY 4.4 PERCENT COMPARED WITH
2 PERCENT IN PREVIOUS PERIOD. INCREASES WILL BE ATTRIBUTABLE LAR-
GELY TO MUCH INCREASED INVESTMENT IN AGRICULTURE: 500 MD
(\$1.2 BILLION) FOR FIFTH PLAN AS COMPARED TO 197 MD FOR FOURTH

PLAN. ALMOST HALF (244 MD) IS DESTINED FOR IRRIGATION PROJECTS TO: A) IMPROVE PRESENT SYSTEMS AND B) PLACE 33,400 ADDITIONAL HECTARES UNDER IRRIGATION. MAJOR IRRIGATION PROJECTS SUCH AS SIDI SALEM, SIDI SAAD AND JOUMINE DAMS ARE FOR MOST PART ALREADY FINANCED. ADDITIONAL INPUTS NEEDED ARE: A) IMPROVED TECHNIQUES BY FARMERS (THROUGH BETTER EDUCATION, EXTENSION SERVICES AND AGRICULTURAL CREDIT, AND B) ADAPTATION OF MODERN TECHNOLOGY TO TUNISIAN CONDITIONS. MAJOR INVESTMENTS ALSO ARE PLANNED IN AGRICULTURAL MACHINERY (80 MD), LIVESTOCK (56 MD), ORCHARDS (35 MD), AND FISHING (46 MD). ALTHOUGH SOME ATTENTION IS DIRECTED TO IN-

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CREASING AGRICULTURAL EXPORTS, IMPORT POLICIES IN MOST LOGICAL MARKETS--THOSE OF EC--HAVE BEEN DISCOURAGING. NET SELF-SUFFICIENCY IS TO BE REACHED PRINCIPALLY BY IMPORT SUBSTITUTION.

8. AGRICULTURAL COMMODITIES: RECOGNIZING THE STATE OF EXPORT MARKET, GOT PROJECTS LEVELLING OFF OF QOLIVE OIL PRODUCTION AND EXPORTS. PRINCIPAL PRODUCTION INCREASES PROJECTED ARE FOR WHEAT AND BARLEY, WHICH ARE TO RISE FROM ONE MILLION TONS IN 1976 TO 1.5 MILLION TONS IN 1981, BY WHICH TIME EXPORTS OF 210,000 MT OF DURHAM WHEAT ARE EXPECTED TO NEARLY BALANCE IMPORTS OF BREAD WHEAT. (APART FROM INCREASED IRRIGATION, CREDITS FOR SMALL AND MEDIUM-SIZE FARMS--FOR SEED AND FERTILIZER--AND AUGMENTED STORAGE CAPACITY ARE SEEN BY GOT AS CRITICAL TO ACHIEVING SELF-SUFFICIENCY IN CEREALS.) OTHER AREAS FOR INCREASED PRODUCTION ARE: CITRUS, OTHER TREE CROPS (EXCEPT OLIVES), MARKET GARDEN CROPS--ESPECIALLY POTATOES AND TOMATOES (MUCH FOR EARLY SEASON EXPORTS, MOST RAISED ON NEWLY IRRIGATED LAND), MEAT AND DAIRY PRODUCTS. SELF-SUFFICIENCY IS TO BE REACHED IN MEAT AND EGGS. MEAT PRODUCTION--SHIFTING TOWARD POULTRY AND BEEF--IS TO INCREASE FROM 95,000 TONS IN 1976 TO 137,000 TONS IN 1981, WITH EGG PRODUCTION NEARLY DOUBLING FROM 376 TO 671 MILLION AND MILK PRODUCTION RISING 50 PERCENT TO 364,000 TONS. ALSO IMPORTANT ARE QUADRUPLING OF SUGAR BEET PRODUCTION FROM 83,000 TO ABOUT 350,000 TONS, INCREASED TO TOBACCO PRODUCTION, AND FISH CATCH REACHING 88,000 TONS IN 1981.

9. CURRENT ACCOUNT: FOREIGN EXCHANGE EARNINGS ARE TO GROW 15.2 PERCENT PER ANNUM, 10 PERCENT IN CONSTANT DINARS. ALTHOUGH ANNUAL TRADE AND CURRENT ACCOUNT DEFICITS ARE PROJECTED TO WORSEN IN COURSE OF FIFTH PLAN, FROM 318 MD TO 426.5 MD AND FROM 175 MD TO 233 MD, RESPECTIVELY, PLAN EMPHASIZES EXTERNAL SECTOR'S ABILITY TO CARRY NECESSARILY INCREASED COMMERCIAL BORROWING TO COVER THESE DEFICITS. PRINCIPAL SOURCES OF FOREIGN EXCHANGE EARNINGS IN 1981 WILL BE PETROLEUM (13 MD), PHOSPHATES (ROCK: 46 MD, PROCESSED FERTILIZER: 96.0 MD), EXTILES--GARMENTS AND

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DENIM (110 MD), TOURISM (221 MD)--11 PERCENT ANNUAL GROWTH OVER 1976, AND WORKER REMITTANCES (78 MD).

10. TERMS OF TRADE ARE EXPECTED TO DETERIORATE: EXPORT PRICES ARE PROJECTED TO RISE 4 PERCENT ANNUALLY OVER PERIOD, WHEREAS IMPORT PRICES ARE EXPECTED TO INCREASE AT RATE OF 6 PERCENT. ALTHOUGH EXPORT VOLUME IS EXPECTED TO RISE TWO TIMES AS FAST A IMPORT VOLUME--12 PERCENT VERSUS 6 PERCENT ANNUALLY, CUMULATIVE CURRENT ACCOUNT DEFICIT TO BE FINANCED BY EXTERNAL CREDITS, AS OUTLINED IN PARA 5, WILL BE 1981 INCREASE DEBT BURDEN TO 1,640 MD--47 PERCENT OF GDP. DEBT SERVICE THEN WILL ABSORB 17.4 PERCENT OF FOREIGN EXCHANGE EARNINGS.

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11. INVESTMENT ALLOCATION: STATE CORPORATIONS WILL BE RESPONSIBLE

FOR LARGE AND "LUMPY" INVESTMENTS IN HEAVY INDUSTRIAL, ENERGY AND MINING SECTORS, RECEIVING MAJOR FOREIGN INPUTS THROUGH LONG-TERM BORROWING AND EQUITY PARTICIPATIONS. PRIVATE SECTOR IS EXPECTED TO ORIGINATE AND FINANCE SMALL BUT USUALLY LABOR-INTENSIVE INDUSTRIAL VENTURES. SECTORAL BREAKDOWN OF INVESTMENT FOLLOWS (FOR AGRICULTURE: 500 MD OR \$1.2 BILLION, SEE PARA 7 ABOVE.)

12. MANUFACTURING INDUSTRY: MANUFACTURING INDUSTRY IS TO RECEIVE INVESTMENTS TOTALLING 950 MD (\$2.2 BILLION) AND WILL BE EXPECTED TO GROW AT REAL RATE OF 11.7 PERCENT ANNUALLY (NEARLY TWICE RATE UNDER FOURTH PLAN), CONTRIBUTING 18.6 PERCENT TO UNCLASSIFIED

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TOTAL GROWTH. STRATEGY IN THIS SECTOR IS EXPORT-ORIENTED; MANUFACTURING'S CONTRIBUTION TO EXPORT EARNINGS SHOULD MORE THAN DOUBLE FROM 151 MD IN 1976 TO 327 MD IN 1981. OF 234,000 JOBS TO BE CREATED, 90,000 ARE TO BE IN MANUFACTURING. TWIN THRUSTS OF THIS EXPORT-ORIENTED POLICY ARE IN CAPITAL-INTENSIVE PUBLIC SECTOR, WHERE MUCH OF INVESTMENT IS TO PROCESS RAW MATERIALS, WHICH ARE MAJOR EARNERS OF FOREIGN EXCHANGE, AND IN LABOR-INTENSIVE LIGHT INDUSTRY WHERE PRIVATE ENTERPRISE HAS LEADING ROLE IN GENERATING EMPLOYMENT. OVER HALF OF INVESTMENT IN MANUFACTURES WILL BE DEVOTED TO CEMENT AND OTHER BUILDING MATERIALS (290 MD) AND TO PHOSPHATE FERTILIZERS AND OTHER INDUSTRIAL CHEMICALS (290 MD) AND TO PHOSPHATE FERTILIZERS AND OTHER INDUSTRIAL CHEMICALS (220 MD). WHILE THEMSELVES CAPITAL-INTENSIVE, THE FORMER WILL FACILITATE LABOR-INTENSIVE CONSTRUCTION--AND SAVE ON FOREIGN EXCHANGE; THE LATTER WILL CARRY FORWARD SUCCESSFUL

POLICY OF RAISING VALUE-ADDED IN EXPORTS OF PHOSPHATES AND PETROLEUM. WITHIN MANUFACTURING SECTOR, PROJECTS TOTALLING ONLY 639 MD, ABOUT TWO-THIRDS OF THE TOTAL, HAVE BEEN IDENTIFIED--MAINLY IN CEMENT AND PHOSPHATES. PRIVATE FOREIGN INVESTMENT IS BEING SOUGHT BY INVESTMENT PROMOTION AGENCY (API) THROUGH PROJECTS MAINLY IN MECHANICAL AND ELECTRICAL INDUSTRIES (170 MD) AND IN TEXTILES AND LEATHER (100 MD). PROJECTED INVESTMENTS IN OTHER KEY MANUFACTURING SECTORS ARE 130 MD FOR FOOD AND RELATED INDUSTRIES (MILLING AND BAKING: 27 MD, SUGAR: 23 MD, CIGARETTES: 19 MD, DAIRY PRODUCTS: 12 MD, VEGETABLE OIL: 16 MD, ANIMAL FEED, CANNING AND WINE EACH OVER 5 MD, AND 50 MD FOR FOREST PRODUCTS, PRINTING AND PLASTICS.

13. ENERGY SECTOR: PLANNED INVESTMENT OF 732 MD (\$1.7 BILLION), NEARLY TRIPLE THAT UNDER FOURTH PLAN, IS COMINATED BY LARGEST OF ALL FIFTH PLAN PROJECTS: DEVELOPMENT OF MISKAR OFFSHORE GAS FIELD (249 MD) OR \$580 MILLION. MAJOR OUTLAYS ALSO ARE UNCLASSIFIED

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SLATED FOR ELECTRIC POWER GENERATION AND DISTRIBUTION, AND FOR OIL EXPLORATION AND DEVELOPMENT. OF 200 MD FOR ELECTRICITY, 78.5 MD WILL GO TO INCREASING NATIONAL GENERATING CAPACITY FROM 390 MEGAWATTS IN 1976 TO 840 MW BY 1981. WHILE 63 PERCENT OF NEW CAPACITY WILL SERVE EXTRACTIVE, CONSTRUCTION MATERIALS AND CHEMICAL INDUSTRIES, MASSIVE 76 MD INVESTMENT WILL GO TO BRING ELECTRICITY TO ADDITIONAL 230,000 URBAN AND 74,000 RURAL HOUSEHOLDS--LATTER AT COST OF UP TO 30 MD. PETROLEUM EXPLORATION (103 MD) AND DEVELOPMENT (115 MD) ARE TOGETHER PROJECTED TO COST 218 MD (\$5 BILLION), MOST OF WHICH FOREIGN COMPANIES ARE EXPECTED TO FINANCE. (NATIONAL CRUDE PRODUCTION IS PROJECTED TO REACH 5.4 MILLION MT ANNUALLY--OR 113,000 BARRELS PER DAY--IN 1981, WITH 500,000 MT COMING FROM NEW ISIS OFFSHORE FIELD. ONSHORE EL BORMA FIELD AND OFFSHORE ASHTART FIELD ARE EXPECTED TO CONTRIBUTE 2.7 MILLION MT AND 2.5 MILLION MT, RESPECTIVELY.) NEW OIL REFINERY (65 MD) IS ALSO PROJECTED. (IT APPEARED IN FOURTH PLAN, BUT WAS DEFERRED.) D) MINING: INVESTMENT IS NEARLY ALL TO BE IN PHOSPHATES, WHICH TO RECEIVE 113 MD OF 130 MD (\$300 BILLION FOR SECTOR. BIGGEST OUTLAYS ARE FOR STATE PHOSPHATE COMPANY'S NEW SEHIB UNDERGROUND MINE (30.5 MD), KEF CHEFAIER OPEN PIT MINE (32.4 MD) AND MINE AND PLANT MODERNIZATION. SMALL BUT INCREASED INVESTMENTS ARE PROVIDED FOR SOTEMI'S NON-FERROUS MINING (7 MD) AND FOR MINE EXPLORATION (6.1 MD).

14. SERVICES: TRANSPORTATION AND COMMUNICATIONS ARE TO RECEIVE 570 MD (\$2.3 BILLION)--DOUBLE THEIR INVESTMENT UNDER FOURTH PLAN. MAJOR UNDER FOURTH PLAN. MAJOR ALLOCATIONS GO TO HIGHWAY TRANSPORTATION (205 MD), AIR TRANSPORT (95 MD), MARITIME TRANSPORT (118 MD), RAIL TRANSPORT (75 MD) AND POSTAL AND TELEPHONE SERVICE (69 MD). HIGHWAY TRANSPORTATION COMPRISES 92.4 MD FOR VEHICLES AND 13 MD FOR ROADS. AIR TRANSPORT: MUCH OF 95 MD GOES FOR 8 ADDITIONAL AIRCRAFT, AND THEREFORE IS SUBJECT TO LONG-TERM CREDITS AND AIRLINE SELF-FINANCING. (WITH ITS TRAFFIC RISING 13 PERCENT ANNUALLY, TUNIS AIR IS EXPECTED TO GARNER 46.5 PERCENT OF ALL TUNISIAN TRAFFIC BY 1981.) RELATIVELY LARGEST INVESTMENT INCREASE IN TRANSPORT IS IN MARITIME TRANSPORT.

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PORTATION (118 MD). ACQUISITION POLICY--CALLING FOR EXPENDITURE OF 77 MD BY TUNISIAN STATE SHIPPING LINES--AIMS TO RAISE NATIONAL SHARE OF TRAFFIC FROM 8 PERCENT IN 1976 TO 30 PERCENT IN 1981. (DIVERSE ACQUISITION LIST INCLUDES OIL AND PHOSPHORIC ACID TANKERS, CAR FERRY, ORE CARRIERS, AND SMALL ROLL-ON/ROLL-OFF FREIGHTERS.) BALANCE OF 39 MD GOES TO COMPLETE SOUTHERN PORT OF GABES AND ENLARGE AND MODERNIZE PORTS OF LA GOULETTE--WHICH SERVES TUNIS--AND SFAX. EXPECTED TRAFFIC INCREASE OF 12 PERCENT PER ANNUM IS SEEN TO JUSTIFY 75 MD INVESTMENT IN STATE RAILROADS (SNFCFT). PROJECTS UNDERWAY OR READY INCLUDE RESTRUCTURING

TURING OF SOUTHERN NETWORK TO HANDLE INCREASING PHOSPHATE SHIP-
MENTS, ACQUISITION OF PASSENGER AND FREIGHT ROLLING STOCK, CON-
STRUCTION OF TUNIS TERMINAL, AND RENOVATION OF RIGHT-OF-WAY.

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STOCKHOLM, TOKYO, TRIPOLI, VIENNA, AND USMISSION USUN NEW YORK

15. TOURISM: INVESTMENTS TALLING 95 MD (\$221 MILLION) WILL
RASE HOTEL CAPACITY BY 18,000 BEDS TO TOTAL OF 82,000 BEDS IN
1981. GREATER EMPHASIS ON LUXURY ACCOMODATIONS JTYYTDSTWVON #

FACILITIES, AND ON TRAINING FOR BETTER SERVICE AND MAINTENANCE
SHOULD, WITH STRENGTHENED FOREIGN MARKETING HELP TO
MEET TARGETED INCREASES (A) IN AVERAGE OCCUPANCY RATE FROM
36.3 PERCENT (FOURTH PLAN) TO 44.5 PERCENT (FIFTH PLAN) AND (B)
IN UNIT RECEIPTS FROM 14.50 DINARS PER GUEST/NIGHT IN
1976 TO 17.50 DINARS IN 1981.

16. HOUSING INVESTMENT OF 600 MD--14.3 PERCENT OF TOTAL--IS
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TO BUILD 125,000 NEW UNITS. SPECIAL EMPHASIS IS ON RURAL HOUSING, CONSTRUCTION OF WHICH IS TO DOUBLE FROM 4,000 ANNUALLY UNDER FOURTH PLAN TO 8,000 ANNUALLY UNDER FIFTH PLAN. EXPANDED HOUSING ACTIVITY WILL GENERATE ABOUT HALF OF 55,000 NEW HOBS IN CONSTRUCTIN INDUSTRY.

17. SOCIAL SERVICES ARE TO RECEIVE INVESTMENTS OF 376 MD (\$9 BILLION). EDUCATION AND TRAINING LEAD WITH 140 MD (WITH INCREASED EMPHAQSIS ON GUIDING STUDENTS INTO SCARCE SKILLS WHICH ASSURE EMPLOYMENT), HEALTH IS TO GET 89 MD, AND SANITATION 73 MD. CUTTING ACROSS SECTORAL LINES, RURAL DEVELOPMENT HAS BEEN ALLOCATED INVESTMENTS TOTTALLING 100 MD, (\$233 MILLION), AS COMPARED WITH 63 MD UNDER FOURTH PLAN. DECENTRALIZATION OF GOVERNMENT SERVICES AND DECISION-MAKING, WITH EMPHASIS ON COORDINATION BY PROVINCIAL GOVERNMENTS, IS DESIGNED TOMAKE THIS EFFORT MORE EFFECTIVE.

18. CONCESSIONAL ASSISTANCE IS VIEWED BY GOT AS CRITICAL TO MANY PROJECTS IN SECTORS OTHER THAN MINING, MANUFACTURING AND ENERGY--ESPECIALLY THOSE PROJECTS ADDRESSED TO REGIONAL AND OTHER DISPARITIES. IN GENERAL, GIVEN EMPHASIS ON PROMPT PRODUCTIVITY, DIRECT GOVERNMENT INVESTMENT WILL BE LIOTED TO PROJECTS UNDERWAY OR IN FINAL STAGES OF PLANNING--NOTABLY IN IRRIGATION0 ROADS, HOUSING, HOSPITALS, SANITATION AND SCHOOLS.

19. PLAN ITSELF NOTES SEVERAL AREAS OF RISK AND POSSIBLE SHORTFALL IN PERFORMANCE. TWO OF MOST SERIOUS RELATE TO EXOGENOUS FACTORS AND TECHNICAL CADRES: (A) AGRICULTURE IS SUBJECT TO VAGARIES OF MEDITERRANEAN RAINFALL, WHICH CAN BE OFFSET ONLY IN PART BY SHIFT TO IRRIGATED METHODS. HOWEVER, EXPORT-ORIENTED INDUSTRIAL DEVELOPMENT AND TOURISM ALSO ARE SENSITIVE TO EQUALLY SERIOUS EXOGENOUS FACTORS INVOL-BVING THE ECONOMIC HEALTH, COMMERCIAL AND LABOR POLICIES OF UNCLASSIFIED

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WESTERN EUROPEAN CLIENTS. SHIFTING TERMS OF TRADE AS WELL AS EUROPEAN PROTECTIONISM MAKE MORE AGGRESSIVE EXPORT PROMOTION AND MARKET DIVERSIFICATION ESSENTIAL. (B) THE NEED FOR MORE WELL-TRAINED TECHNICAL CADRES IS EVIDEPT IN MANY SECTORS SHORTAGES MAY WELL RETARD PROJECT IDENTIFICATION, DESIGN AND EXECUTION--PARTICULARLY IN THE GOVERNMENT SECTOR--AS WELL AS IMPACTING ADVERSELY ON MAINTENANCE AND EFFICIENCY OF OPERATIONS. (OTHER PROBLEM AREAS ARE HIGHLIGHTED IN IBRD'S MAY 19977 SPECIAL REPORT ON PLAN AND IN REFERENCED EMBASSY CABLES.)

20. FINAL PLAN AND DRAFT, COMPARING TEXTS: SECOND PHASE

OF PLAN PREPARATION, FOLLOWING COMPLETION OF PRE-LIMINARY VERSION ONE YEAR AGO, WAS EXPECTED TO ELABORATE POLICY MEASURES NEEDED TO ACHIEVE QUANTATIVE TARGETS. HOWEVER, OUR CONCLUSION AFTER SOMEWHAT RAPID REVIEW IS THAT LITTLE IN WAY OF POLICY PRESCRIPTION HAS BEEN ADDED IN FINAL PLAN, WHICH IN FACT IS SHORTER THAN THE DRAFT. ON THE OTHER HAND, MANY FIGURES OTHER THAN BASIC ONES FOR TARGET GROWTH RATE (7.5 PERCENT) AND TOTAL INVESTMENT (4.2 BILLION DINARS) HAVE BEEN MODIFIED. (SEE 76 TUNIS 6629.) MOST CHANGES REFLECT MORE RECENT DATA FOR 1976 AND FOR FOURTH PLAN PERIOD, WHICH FORM BASIS FOR FIFTH PLAN PROJECTIONS. IN A FEW CASES, CHANGES APPEAR TO REFLECT ADJUSTMENTS IN POLICY OR FORECASTS.

21. FOR EXAMPLE, PROJECTED ANNUAL RATE OF INCREASE IN PUBLIC CONSUMPTION HAS BEEN RAISED FROM 7.6 PERCENT TO 9.3 PERCENT, REFLECTING MAINLY GOVERNMENT SALARY INCREASES DECIDED AFTER COMPLETION OF FIRST VERSION OF PLAN. DESPITE THIS, PUBLIC SECTOR SAVINGS ARE NOW EXPECTED TO BE 930 MD INSTEAD OF 690 MD BECAUSE OF HIGHER PROJECTIONS FOR FISCAL REVENUE. PROJECTED AVERAGE PROPENSITY OF HOUSEHOLDS TO SAVE HAS BEEN LOWERED FROM 11.6 PERCENT TO MORE REALISTIC 10.6 PERCENT (AS COMPARED TO 10.3 PERCENT UNDER FOURTH PLAN). ALSO, WHEREAS OFFICIAL RESERVES ORIGINALLY WERE PROJECTED TO REMAIN UNCHANGED, THEY NOW ARE TO INCREASE SO AS TO MAINTAIN A LEVEL EQUIVALENT TO 2-1/2 MONTHS IMPORTS. PROJECTED RATE OF GROWTH FOR

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EXPORTS, IN CONSTANT PRICE TERMS, HAS BEEN INCREASED FROM 9.5 PERCENT TO 12 PERCENT ANNUALLY. EXPORT PRICES, WHICH FORMERLY WERE PROJECTED AS UNCHANGED, ARE NOW EXPECTED TO INCREASE 4 PERCENT ANNUALLY, PRODUCING A 16.8 PERCENT INCREASE IN EXPORT RECEIPTS. MOST NOTABLY, DUE TO A HIGHER ESTIMATE OF TOTAL FOREIGN FINANCING NEEDS (QYIP MD INSTEAD OF 1506 MD), AND A LOWER ESTIMATE OF LONG-TERM CAPITAL AVAILABILITY (970 MD INSTEAD OF 1030 MD), PROJECTED RECOURSE TO MEDIUM-TERM COMMERCIAL CAPITAL JUMPS FROM 476 MD IN THE DRAFT PLAN TO 710 MD IN DEFINITIVE TEXT. FINALLY, NET FIVE-YEAR ADDITION TO LABOR FORCE HAS BEEN REDUCED FROM 303,000 TO 279,000 BY A DEFINITIONAL CHANGE WHICH EXCLUDES THE 15 A TO 17 AND OVER 59 AGE GROUPS.

22. COMMENT: WHILE THE REVISED TARGETS FOR TUNISIA'S FOREIGN BORROWING ARE LARGE, THESE AND OTHER MODIFICATIONS IN THE PLAN APPEAR TO BE ON THE SIDE OF REALISM. WE ADHERE TO THE VIEW EXPRESSED BY ASSOCIATE AID ADMINISTRATOR JOSEPH WHEELER AT THE JULY TUNISIAN DEVELOPMENT CONFERENCE THAT THE FIFTH PLAN CONSTITUTES AN AMBITIOUS, BUT ACHIEVABLE PROGRAM. (TUNIS 5006 GIVEN CONTINUATION OF TUNISIA'S GOOD ECONOMIC MANAGEMENT, EXPECTED LEVELS OF FOREIGN ASSISTANCE--AND REASONABLE LUCK IN RESPECT TO EXOGENOUS INFLUENCES ON ITS ECONOMY, THERE IS EVERY CHANCE THAT THE TUNISIAN SUCCESS STORY WILL CARRY ON UNDER THE

FIFTH PLAN.
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